CAPITAL GROUP™

Q4 2022
Quarterly update

Capital Group New Perspective Fund Hedged (AU)

Market review

- Global stocks rose as investors welcomed signs that inflation may have peaked in key markets around the world. Consumer price increases, while still high on a historical basis, moderated in the US, Europe and many other economies, fuelling speculation that central banks might not raise interest rates as fast or as far as previously thought.
- Nearly all sectors moved higher in the MSCI All Country World Index. Energy, industrials and materials stocks posted strong gains amid hopes that global economic growth would be better than expected in the year ahead. However, pointing to a degree of consumer weakness, the consumer discretionary sector lost about 1%.
- European stocks rallied, generating the largest gains among the world's major developed economies. Markets bounced back from steep losses earlier in the year as inflationary pressures eased and central bank officials started reducing the magnitude of interest rate increases. The MSCI Europe Index advanced 19% in the fourth quarter, boosted by the euro's strong performance against the US dollar. For the full year, the index remained down 15%.
- All sectors in the MSCI Europe Index enjoyed double-digit gains, led by a 25% rise among financial stocks. Stocks in the industrials sector also rose sharply amid investor hopes that lower inflation may result in better-than-expected global economic growth.

Three-month portfolio review

- For the quarter ended 31 December 2022, Capital Group New Perspective Fund Hedged (AU) returned 5.2%[1] before fees and 5.0%[2] net of fees, while the index returned 7.1%.[3] For the 12-month period, the fund returned -25.4%[1] before fees and -26.0%[2] net of fees, compared with the index return of -17.7%.[3]

Relative detractors

- Consumer discretionary: Stock selection and, to a lesser extent, an above-index sector holding in the consumer discretionary sector weighed on relative returns. A position in electric vehicle (EV) maker **Tesla** hurt as shares plunged 54% over the quarter, suffering from negative sentiment on CEO Elon Musk's acquisition of Twitter and his related sales of Tesla stock. There were also worries on the outlook amid signs of flagging demand, with Musk warning he anticipated a serious recession in 2023.
- Energy: A below-index exposure to the energy sector detracted from relative returns. Not holding **ExxonMobil** was a negative as the shares jumped 27% after the oil major beat third-quarter earnings and revenue estimates while raising its dividend. ExxonMobil later announced it would ramp up its share buyback programme to US$50 billion through 2024 versus its previous pledge to repurchase US$30 billion of stock through 2023.

- Financials: Positioning in the financials sector more than offset the benefits of positive stock selection on a relative basis. A position in **CME Group** was a drag as the shares fell 2%, suffering from falling market volatility over the fourth quarter. There were also concerns that CME would face less favourable operating conditions in 2023 given the especially high levels of market volatility and intense trading activity seen across capital markets during much of 2022.

Relative contributors

- Information technology: The choice of stocks and, to a lesser extent, a below-index holding in the information technology sector buoyed relative returns. A below-index position in **Apple** was beneficial as the shares fell 6%, suffering from rising concerns over production delays in China and worries over the demand outlook for iPhones as well as the broader smartphone market in 2023. The technology giant nevertheless beat third-quarter earnings and revenue estimates, with strong contributions from iPhone sales and services.
- Health care: Stock selection and an above-index exposure in the health care sector added to relative results. **Novo Nordisk** was a bright spot as the shares surged 23% after third-quarter earnings topped estimates and Novo Nordisk raised full-year sales growth guidance, pointing to accelerating demand for its diabetes drugs and especially strong sales growth for its weight loss treatments.
- Industrials: The choice of stocks in the industrials sector was also helpful. An above-index holding in **Caterpillar** helped as shares jumped 47%. Caterpillar reported record profit for the third quarter as soaring demand for construction and heavy equipment pushed up both sales volumes and prices. Sales of oil and natural gas as well as mining equipment were particularly strong as resources companies increased spending.

Positioning and Outlook

- There is a new reality taking shape in global markets. From falling rates to rising rates, from narrow to broad market leadership and from global to regional supply chain – these are just some of the seismic shifts that will likely define the next decade of investing. Even though the outlook has evolved from a decade of sunny skies to darker clouds, this is also an exciting time to be a fundamental, bottom-up investor unrestricted by geographies, sectors or style boxes and therefore better equipped to adjust to this new reality of investing. Going forward, NPF's PMs believe:
  - Corporate earnings could become the driving force of returns, as opposed to multiple expansion, signifying a welcome return to fundamentals.
  - A new equity market leadership could form over the next cycle. While it does not mean growth investing is dead, markets are likely to be less one-dimensional and a broader range of companies could do well, favouring bottom-up stock-pickers.
  - Highly leveraged companies could face headwinds, while companies able to fund their own growth could be more attractive.
  - Recent geopolitical tensions and pandemic-induced disruptions have highlighted the limitations of highly efficient but fragile global supply chains. There could be long-lasting effects as companies place more emphasis on resiliency and redundancy.
- Against this outlook, NPF continues to offer well-balanced exposure to both long-term secular growth and select economically sensitive growth, both of which are underpinned by a broad set of resilient or defensive businesses. The portfolio also holds companies with strong pricing power across a variety of industries, in the context of keeping up with underlying labour/input cost inflation. It is deliberately not positioned for a single outcome or 'type' of short-term market environment and has the flexibility to invest in any type of company regardless of geography, sector or style. This structural flexibility and diversification may provide a durable outcome as PMs are able to reorientate the portfolio based on their long-term investment convictions, over a multi-year time horizon.

Developed market returns are in US dollars and include net dividends. Emerging markets returns are in US dollars. Stock returns are total returns as shown in local currency terms, unless otherwise stated. Sources: Capital Group, MSCI

[1] Returns are before management fees and expenses, in Australian dollar terms. Source: Capital Group

[2] Returns are net of fees at maximum management fee, in Australian dollar terms. Source: Capital Group

[3] MSCI ACWI 100% hedged into Australian dollars with net dividends reinvested. Source: MSCI